

MINUTES
MICHIGAN STATE TRANSPORTATION COMMISSION WORKSHOP
August 21, 2008
Farmington Hills, Michigan

Meeting noticed in accordance with Open Meetings Act, Public Act 267 of 1976.

Present: Ted Wahby, Chair
 Linda Miller Atkinson, Vice Chair
 Maureen Miller Brosnan, Commissioner
 Steven K. Girard, Commissioner
 James S. Scalici, Commissioner

Also Present: Kirk T. Steudle, Director
 Larry Tibbits, Chief Operations Officer
 Leon Hank, Chief Administrative Officer
 Frank E. Kelley, Commission Advisor
 Marneta Young, Commission Executive Assistant
 Jerry Jones, Commission Auditor, Office of Commission Audit
 John Friend, Bureau Director, Highway Delivery
 John Polasek, Bureau Director, Highway Development
 Myron Frierson, Bureau Director, Finance and Administration
 Susan Mortel, Bureau Director, Transportation Planning
 Rob Abent, Bureau Director, Aeronautics and Freight Services
 Denise Jackson, Administrator, Statewide Planning

Excused: Jerrold M. Jung, Commissioner

A list of those people who attended the workshop is attached to the official minutes.

Chair Wahby called the workshop to order at 12:30 p.m. in the Farmington Community Main Library Auditorium, in Farmington Hills, Michigan.

REVENUE SHORTFALL – ITS EFFECT ON MDOT

MDOT Five Year Program Adjustment Alternatives – Susan Mortel, Bureau of Transportation Planning

Ms. Mortel introduced staff that worked on today's presentation: Denise Jackson, Craig Newell, Jim Ashman, Jim Fillwock, and Michelle Fedorowicz

The purpose of the work session is to make a policy decision about what strategy MDOT will use to align its program with expected revenue.

Travel trends are down, state revenues are declining, federal revenue is uncertain and costs are increasing—this introduces four major elements of uncertainty into our program. Congress adjourned on July 31st without having solved the problem of federal aid trust fund insolvency for

2009. We still have hopes that they will solve this problem but the problem at the federal level is only one of two parts. This presentation will be based on the assumption that this insolvency is solved and go on to the problems at the state level.

We are assuming a continuation of SAFETEA-LU funding levels through 2010; that means about \$4.2 billion that we would have in federal aid available to Michigan through 2012. If they don't solve the problem with the trust fund, we will have to cut between \$245 and \$320 million. Even if the Highway Trust Fund is fixed, MDOT still will not be able to match all federal-aid dollars beginning in 2010.

Gasoline prices have had a direct affect on the day to day travel of Michigan motorists. Travel decreased on the trunkline system from 2004 to 2007 by 2.2 billion vehicle miles or approximately 4%. Fewer gallons of gas are being sold. Between 2004 and 2009 losses to the Michigan Transportation Fund (MTF) are estimated at \$100 million. The State Trunkline Fund (STF) portion (not just gas tax, this is all revenue into the STF) of the MTF is also affected. These funds have declined on average 1% per year and are expected to continue this trend through 2009.

We have this problem of matching federal-aid because state dollars are utilized to leverage federal dollars. For example, \$1 million in state funds leverages about \$5.7 million in federal funds. While revenue is on the way down, our costs are on the way up. The federal and state transportation taxes are not indexed to inflation. Over time, the buying power of the STF has decreased. When inflation is factored in, the 19 cent gas tax in 1997 has the buying power of 14.7 cents in 2008. MDOT is further challenged by the rising costs of raw materials needed for road and bridge construction and maintenance.

In recent years MDOT has initiated several bonding programs to advance projects. We keep close track of our debt and manage it very carefully. We are close to the point where the Commission has indicated they want us to limit our debt so selling more bonds isn't really an option. That results in an inability to match federal funds for highways, transit and aviation. We can expect deteriorating facilities and loss of jobs (over 12,000 from shrinking MDOT highway program alone). The anticipated shortfall of state revenue and unmatchable federal-aid is over \$3.2 billion over the 2010-2013 timeframe.

The department has developed four alternative strategies that could be used to guide future program adjustment decisions. Each strategy has varying impacts on the program, however, with each, focus would continue on the high volume system (freeways and corridors of high significance), geographic balance of projects throughout the state, and utilizing earmark dollars as appropriate.

We estimate program reductions may need to be as large as \$680 million in the outer years of the Five Year Program and \$400 million in the near term. We are investigating a number of short term fixes (bond refinancing, fund transfers, etc.) to reduce the impact to the program in the immediate future. Given the uncertainty of the exact reduction amount, a range of \$400-\$600 million was provided in the memo sent prior to this workshop. In this presentation, we are highlighting what a \$400 million reduction would look like for each program.

Our average annual program by category totals approximately \$900 million per year, without routine maintenance. There is \$50 million designated for State Funded Programs (things not eligible for federal aid that we have to do or are not cost effective to do). As the M Funds have dwindled over time, the department has been going through exercises to figure out what the most important things are that we need to do with M funded money only. We have it down to a minimum of this \$50 million. An "Other" category includes carpool parking lots, commercial vehicle enforcement, enhancement, freeway lighting, noise abatement, pump stations, roadsides, training and wetland pre-mitigation.

Option #1 (STC Priorities focus)

This option takes into consideration the MI Transportation Plan objectives as ranked by the STC at the Advancing Performance Measurement Workshop held on February 28th. The STC identified preservation, safety, bottlenecks, and operations as near-term priorities. This represents a reduction in the road preservation program of \$205 million and bridges reduced by \$75 million. Preservation, bridge and safety would receive 80% of the funding. The remainder of the funds goes into ITS, CMAQ and Capacity Increase (CI)/New Roads (NR) programs.

Option #2 (Preservation and Safety focus)

This option puts emphasis on programs related to preservation and safety including reconstruction, rehabilitation, and capital preventive maintenance for road and bridge, traffic and safety, safe routes to school, and federal railroad crossing programs (reduction in the road preservation program of \$145 million and bridges reduced by \$79 million). Projects in other programs would be delayed and/or eliminated (programs like carpool lots, CMAQ, ITS). Preservation, bridge and safety would receive 89% of the funding.

Option #3 (Proportional Reduction focus)

This option reduces all programs regardless of department goals or system designation (reduction in the road preservation program of \$206 million and bridges reduced by \$94 million; each program receives a reduction, but no area is eliminated entirely). Reductions are based on relative shares of 2010-13 Trunkline Program template target (larger programs get larger cuts). For example: Where the Road Rehabilitation and Reconstruction Program is 35% of the program, it would be reduced 35%, proportional to its contribution to the total program. Preservation, bridge and safety would receive 75% of the funding.

Option #4 (Corridors of Significance focus)

This option focuses funding toward the higher level of the transportation system. Funding would most likely continue on national and statewide corridors as identified in the MI Transportation Plan. Projects in regional and local corridors would be delayed and/or eliminated. This represents a reduction in the road preservation program of \$182 million and bridges reduced by \$113 million. Preservation, bridge and safety would receive 76% of the funding.

To summarize, all of the scenarios maintain an emphasis on pavement, rehabilitation and bridge. The percentage of the program that is preservation varies a fair amount ranging from a low of 47% in Option #1 to a high in Option #2. Bridges vary from 17% lowest in corridors of significance to highest in Option #1 with the STC priorities. In all of these scenarios the capacity increase and new roads program is a small percent of the program ranging from actually zero in Option #2 up to about 6.4% of the program. This does not represent a significant investment in

capacity increase and new roads—most of the earmarks that we have will continue to wait for construction money.

An important note involves the CMAQ program which is what we use to fund the MITS Center. The question becomes “how do we keep the MITS Center going?” because it’s an important part of our freeway operations and is linked closely to operations in Option #2 (Preservation and Safety).

The Other category ranges from zero up to 5% of the program, being highest in Option #3 where we take the proportional reduction (we don’t lose any of the programs—they are all cut).

What is needed from the Commission today is guidance in terms of how you would like us to proceed in terms of the priorities. There can be one alternative focused on with guidance from that or a combination of alternatives with guidance. We will come back to the Commission to try and stay on schedule for the statutory submittal of the Five Year Program by March 1st. By October 1st the department will finalize the revised project schedules based on Commission instructions and by November 20th present the draft of the new Five Year Program.

Chair Wahby asked, throughout the preservation program, if you have to prioritize which ones go to the top of the list.

Director Steudle answered yes.

Chair Wahby responded that he feels this is the starting point.

Director Steudle added that this is what they tried to do. You could spend it all on roads or a big chunk of it on bridges but by doing this you have to recognize that there is no safety program, safe routes to school program, enhancement program, etc.

Chair Wahby commented that for the last five years we had been working on getting our roads up to 90% and our bridges up to the same percentages, and that we don’t want to sit back and let them all deteriorate again. That is where we need to have our focus—at least to maintain, and not go back to the old pitfalls.

Director Steudle added that the trouble is going to be, even with our current funding scenario, that we cannot hold the system together.

Chair Wahby interjected that the TF2 that the Governor has put together will come back with a focus on what kind of funding we need, how we need it and how we are going to get it. He commented that he didn’t know how we can do all this without knowing that.

Director Steudle stated that this is exactly the kind of feedback the department needs because we are at the point of if this doesn’t happens, we still need to develop the plan that focuses on preservation.

Chair Wahby stated that this was always the focus the Commission had—this along with any major issues the department felt needed to be plugged in, but we need to see that.

Commissioner Brosnan stated that the TF2 was presented with a “do nothing” scenario by the Governor’s office in terms of its numerical value but not presented with what the Commission would do if “do nothing” was the answer (what “do nothing” really looks like). These 4 options present what doing nothing really looks like. In order for us to provide the TF2 with a realistic view of what that scenario is, it’s her understanding that the Commission is being asked to pick one of these options.

Director Steudle responded not necessarily to pick one. What they need to know is what the priority is and Chair Wahby was accurate—preservation first.

Chair Wahby added that there may be issues that are key that has to be thrown in too.

Director Steudle stated that the TF2 did see information that said if we don’t do something by 2010 we will lose federal aid. This was in last years’ Five Year Program in narrative form, and the year before that in tabular form.

Commissioner Brosnan stated that she feels as if the Commission is being put in a position where they have to paint that picture of what a “do nothing” scenario looks like. She then asked Ms. Mortel to again go through the state funded programs (the basics that are needed to operate) which are not being touched at all.

Ms. Mortel responded that they have been touched. We use to do M-funded construction and all those projects were switched over to the federal aid as a part of the last couple Five Year Programs as the M money has dwindled down. We are now at the point where we’re talking about doing things with M funds such as drain assessments (they’re not eligible for federal aid but you have to pay them).

Director Steudle interjected that at times we have done a state funded project instead of a federally funded project because there are projects where following the federal regulations would require us to do a lot more work that we don’t need to do, and spend more money than we really need to. The other place where we use the M-funded projects is for buying federal aid from local agencies. We have 7 or 8 years worth of an offer on the table that we would buy the federal aid (for .75 on the dollar) from a county that didn’t want the federal aid because they were going to build according to less than the federal regulations. We would take that federal aid and design that higher level project because most of our projects are designed to that higher level anyway. Then the county would use that money we bought them out with to complete the project with their own standards and guidelines. This past January we cut that program out completely.

Commissioner Brosnan asked, with an advanced right-of-way acquisition, if what we’re doing is preserving, and if we wish to leverage our money to get as much federal money as we can, why would we use state dollars at this point to acquire right-of-way—that’s \$7 million?

Ms. Mortel responded that there is right-of-way required for preservation projects, regularly—not a lot of it. We go through the Five Year Program, look at what real estate is needed for any of the projects that we have selected for the program, and look at whether or not we can acquire that right-of-way early, thereby preserving a lower price. A very substantial portion of the Five Year Program projects make up that \$7 million and are very heavily preservation oriented.

Director Steudle added that historically we have used advanced right-of-way acquisitions in certain cases (when opportunity purchases come along). For example, US-127 north of Lansing will at some point in the future be a freeway. As people have moved they have come to us to try and sell their property. We look at the property and if we determine we will need it in the future, we'll buy it with some of the earmark money on the federal side.

Commissioner Brosnan asked if Option #2 is presenting the ability to tap more of the federal aid money.

Ms. Mortel answered that all of the options are based on matching federal aid. We will not have any program that is not federal aid except for the \$50 million. At one time we might have had the ability to make a choice between whether or not we did the projects in that \$295 million out of state money or federal money, now the only choice that we have is the federal money because our problem is we no longer have money beyond what's needed to match federal aid. We have to reserve that little bit of M money outside of the \$295 million simply because some of those things that we must do are not eligible at all.

Director Steudle suggested that the \$50 million be quantified.

Commissioner Brosnan stated that if preservation is key then Option #2 helps us deal with that most directly. The piece, for her, that is missing is that she really wants to see the department continue to invest in the transportation systems' component. We have to put something into our future even in the worst cast scenario and Option #2 doesn't do that—it does everything but that. There's \$7 million in property acquisition at a time when we're not going to be acquiring property, so put that back into the IT program.

Commissioner Scalici asked what the chance of the federal dollars situation being repaired or to what degree can it be repaired.

Director Steudle responded that the feds must first fix the highway trust fund (within the next 6 weeks) otherwise this gets even worse (we will have to stop lettings starting October 1st because we don't know what the money is going to be. If in the next re-authorization they give us more money, the problem is exacerbated because we have more money that we can't access because we don't have the matching funds available for the money we have coming to us right now. There are multiple problems going on at the same time with different parties that are trying to fix it. He is optimistic that the federal and state sides will be fixed and hopefully won't have to implement whichever mixture of the options we come up with.

Commissioner Scalici stated that he agrees with Commissioner Brosnan in that we can't stop going forward. We may have to reduce the amount and obviously preservation is a no-brainer.

Director Steudle asked Commissioner Brosnan if he understands correctly that she wants them to go back and look at the \$7 million specifically in right-of-way advanced acquisition to determine if it is really needed and what it is for, or should the number be zero or \$1 million or \$2 million because we know we're going to need that for the preservation.

Commissioner Brosnan responded that he is correct. Further, from what they were presented with, that is the only area she could understand as being a potential where there would be money that we wouldn't be using in the way that it was described. Additionally, relative to the big picture, she asked where the local transit dollars are in all of this.

Ms. Mortel answered that this is just the road portion; the transit is not included.

Commissioner Brosnan asked if they would be asked to analyze aviation, local transit and freight next.

Ms. Mortel answered yes, eventually.

Director Steudle added that it will be a little bit different because this is the biggest chunk to deal with. There are other partners involved, especially on the transit side. We have been reducing our state share into the transit pot from a 50% match down to about a 20% match in the last couple years using toll credits which allows them to access the federal aid but it is not real money. There aren't really a lot of options within the transit side because it's really pass-through funding and it's the local transit operators that are making those decisions between buying buses and keeping those that they have running. On the airport side it kind of falls into the same thing. You have local airports that are making those funding decisions for FAA grants and then looking to us to come up with that matching share. At some point we may have to tell the local airports that we don't have the money to match that as well. I see the Michigan Aeronautics Commission (MAC) heavily involved in that discussion.

Commissioner Girard stated that Option #1 has "MDOT Recommendation" listed next to it and asked Director Steudle if this is his recommendation of these 4 that we ought to proceed with.

Director Steudle answered that it was, but it was prior to this discussion.

Commissioner Atkinson commented that labels can be misleading because Option #2 isn't the only one that contains preservation as a focus. Options #1, 2 and 3 have preservation and safety as part of the criteria. Option #4 does too, except its only focus is on corridors rather than in general. I don't think we can just look at the label—you have to look at what the portions represent. When you look at that, what you're basically talking about is what we are going to do with some amount between \$3 million (Option #2) and \$58 million (Option #4) and what our priorities are on that. The rest is already somewhat identified. Preservation is very important; so is safety. On the other hand we can't look ahead to 2013 by looking backward to the 20th century. This means that the Intelligence Systems and new demands on a demographically changing community mean we have to look at options that will give us that flexibility. Option #4 looks backward and Option #2 to a certain extent also does. Examining what was done in the priorities to begin with and looking at what the various expenditures mean, Option #3 best serves those needs.

Commissioner Brosnan clarified that she is looking to make the portions \$7 million bigger; not to cut into anymore of the pavement portion.

Chair Wahby suggested the department take this information and come back to the Commission with something put together.

Ms. Mortel stated that this has given her good guidance.

Director Steudle agreed.

Chair Wahby asked if there was any movement in Washington in terms of adjusting the funds.

Director Steudle stated that the House passed it and the Senate essentially had passed it but then they needed a closure vote to actually get it out to a vote, however that failed and now it has to be re-introduced again. The entire Congressional Delegation, except one Congressman, voted in support of fixing the trust fund. Additionally, this is a conversation on the trust fund fix that is happening in every state. The impacts are enormous. California's rescission is \$1 billion whereas ours is just \$250 million.

Chair Wahby reiterated that they have the information needed, now let's see where it goes.

Director Steudle appreciated the feedback.

No other comments or questions were forthcoming.

Adjournment

There being no further business to come before the Commission, Chair Wahby declared the workshop adjourned at 1:30 p.m.

Frank E. Kelley
Commission Advisor